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MEMORANDUM FOR THE RECORD

SUBJECT: Federal Debt Collection Hearing - S. 1961

1. On 15 April 1988, the Courts and Administrative Practice Subcommittee of the Senate Judiciary Committee held a hearing on the above-captioned matter. Appearing as witnesses were Arnold P. Jones of the Government Accounting Office; Joseph R. Wright of the Office of Management and Budget (OMB); Richard Kusserow of Health and Human Services; Frank Donaldson, a United States Attorney for the Northern District of Alabama; Stephen McNamee, a United States Attorney for the District of Arizona; Roy Hayes, a United States Attorney from the Eastern District of Michigan; Martin Teckler of the Small Business Administration; and Donald Ivers of the Veterans Administration. Members present were Senators Heflin, Thurmond, and Grassley.

2. Heflin stated that delinquent Federal debts total over \$80 billion. One of the problems is that the Federal Government must follow varying state laws to collect the debt. The bill provides for uniform, nationwide procedures.

3. Thurmond said the idea is to improve the manner in which the Department of Justice (DoJ) litigates debt cases. Over \$32 billion of the debt is non-tax delinquent debt. The bill is meant to be used by Federal litigators in Federal courts. The cost is more than offset by increased collections.

4. Jones said the amount of delinquent tax debt equaled \$52 billion in September 1987. 92,000 debt cases have been referred to DoJ, equaling \$8.5 billion. State laws regarding collections and bankruptcy impede collections. The asset seizure and forfeiture fund in the law enforcement arena is a model for the remainder of the Government.

5. In a few states (about five) the Federal Government cannot garnish wages to collect debt. The extent of garnishment varies in the other states. There is no idea of how much debt is actually collectible.

6. Thurmond asked what the short- and long-term effects on the debt would be from passage of the bill. Jones answered that there would be a substantial improvement in collections. Some of the money collected would be used to train clerks and paralegals involved in the collection process.

7. Grassley asked for an assessment of DoJ's progress in addressing the problems. Jones' colleague, Mr. Notto, said that even if the bill is passed, there will still be problems collecting the debts.

8. Wright said that employees have to straighten out their debt before being hired at OMB. OMB also makes referrals to private collection agencies. They have identified 67,000 Federal employees owing debt and have garnished the checks of 5,000 in the amount of 15 percent per pay period. They have sold three loans with a value of \$3.1 billion. S. 1961 is a good bill and will help DoJ.

9. Heflin asked if debt can be recovered if more resources are devoted to the problem. Wright said he cannot say how much can be recovered and can give neither a percentage nor a dollar amount. Most of the \$51 billion owed to the Internal Revenue Service can be collected. \$12 billion is agricultural debt from farmers; \$5.2 billion is owed to the Department of Education, 60 percent of which is held by GSL state agencies. If \$1 is put into the private collection effort, there should be a return of \$5.

10. Kusserow said there is no uniformity among agencies in regard to accounts receivable. What is needed is certification by the agency head that the accounts receivable are accurate and that interest is charged. The Government often is charged higher rates to borrow money than it charges others owing money to it. Interest rates should be increased when the debt becomes delinquent.

11. Grassley asked a question about health professionals paying debts. Kusserow said that when they are embarrassed, they pay.


12. Donaldson referred to S. 2205 and its point about funding. He mentioned the 1984 Victims of Crime Act and that the funding of victims through criminal fines is important.

13. Hayes spoke of recent efforts to ensure that offices are up-to-date in their collections. With a fund, there is an automatic prioritization effect within each office.

14. McNamees said the United States attorneys receive the dregs of the debt collections -- debts which have gone past agency and private collections. Thus, the bill is important. Heflin asked if magistrates can play a greater role in collections. If state law is eliminated, he asked, must a judgment be entered by a judge? Hayes thinks magistrates will receive most of the work under the bill.

15. Teckler is for S. 1961. He said it is a firm but fair statutory scheme. What is especially effective is prejudgment attachment. Prejudgment receivership is also helpful.

16. Heflin closed by saying that the subcommittee may have answers to more questions submitted to the record.



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